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REVIEWS OF BOOKS AND OTHER PUBLICATIONS

Roger Backhouse, *Economists and the Economy: The Evolution of Economic Ideas 1600 to the Present Day* (New York: Basil Blackwell, 1988, 224 pp. \$49.95).

by
Alistair M. Preston
Boston University

Roger Backhouse's book, "Economists and the Economy", is concerned with both the history of economic thought and of the economy. His main concern is that present day economic thinking and analysis are too divorced from reality. The book examines how economic and political events from the seventeenth century until the present day have impacted upon, and have been shaped by, the economic thought of the time. His main aim is to provide students of economics with some of the historical and contextual background they need in order to better understand the subject they are studying.

The book is divided up both chronologically and by economic subject. In this respect, it is a series of histories. Chapter 2 is concerned with "Growth and Development", Chapter 3 with "Regulation of Trade and Industry", Chapter 4 with "Money and Inflation" and Chapter 5 with "Employment and Economic Fluctuations". In each of these chapters Backhouse illustrates the intertwining or reciprocal relationship between economic thought and economic and political events. The final two chapters switch the emphasis to a more theoretical posture where he explores the "Theory of a Market Economy" in Chapter 6 before concluding with a more general overview of the "Discipline of Economics" in Chapter 7. These final two chapters include a critical examination of the contributions made by, and the strengths and weaknesses of, economic theory.

By concentrating upon specific subjects, for example, economic growth, the reader is exposed to the intricacies and interrelationships of thought and practice over the centuries, as well as how the economists of a period often differed in their economic interpretations and prescriptions. The manner in which the book is structured means that a number of economists are visited again and again (most notably Adam Smith), vividly revealing their contribution to a wide range of economic theory

and practice. The structure also allows the material to be expressed as a lively narrative rather than in a technical style.

Given the length of time covered (from: 1600 to the present day), Backhouse introduces the reader to a number of lesser known and neglected seventeenth and early eighteenth century economists such as Quensay, Boisguilbert, Cantillon and Locke. He reveals how these and other scholars grappled with, and made sense of, the newly emerging and increasingly complex economic order of their time, as well as revealing how their work subsequently informed those of the better known classical economists. What is surprising, however, is the omission of some of the economic greats such as J. R. Hicks and George Stigler. The latter has been one of the central opponents of the regulation which Backhouse writes about in Chapter 3. The volume also brings the reader up to the present date, considering such issues as the EEC, privatization in the U.K. and deregulation in the U.S.A., all of which are important to the reader's understanding of contemporary economic thought and the economy. Obviously with such a time frame, the book is very much an overview, however, given the thrust and intention of the book, this is a very valid position to adopt and one which is executed with consummate skill.

One of the author's purposes in writing this book is to demonstrate that our understanding of contemporary economic thought and practice, and to some extent the economy itself, must be situated *both* historically and contextually. This book, therefore, not only considers how past economic thought and practice preconditions, or at least shapes and influences, the future, but also examines the specific economic conditions within which particular economic theories and practices emerge. I believe that this approach to a history of thought and practice offers a number of advantages. Grounding theories and practice in their economic as well as historical context not only breathes life into the narrative, making it more real and intelligible, it also reveals the very important intertwining of systems of economic thought and practice with other contemporary events and discourses. In this respect, much economic thought and practice over the centuries is seen to be constituted within, or informed by, events taking place in the real world. The book also reveals how such theories are then often tested against, and sometimes contradicted by, subsequent events. My only real criticism of this book is that the "other" events and discourses are largely restricted to the economic and political realm. Contemporary social, and indeed philosophical discourses

sive practices, which may also be observed to impact upon economic thought, practice and the economy, received scant attention. This, however, is possibly too much to expect from a single volume.

Roger Backhouse weaves into his history a number of stated positions, which he refers to as recurring themes. These are that "there are very serious limits to what economics can achieve" and that "there are certain problems that economists have never managed to tackle successfully and which are unlikely to be tackled much better in the foreseeable future" (see preface). While I have some sympathy with the positions adopted, others may not. Nevertheless, their presence is refreshing and valuable. Too often histories eulogize their disciplines rather than critically reflecting upon them. In contrast, the "recurrent themes" in Backhouse's book serve as a challenge to the reader. The reader is required to consider what the author is saying and whether or not he or she agrees with his position rather than uncritically accepting the material as a given fact.

Although never specifically referring to accounting thought and practice, the orientation of the book may serve as a useful model for similar historical studies in accounting. As with economics, accounting thought should be situated in its historical, economic, political and, if I may add, social context. The book may also provide useful source material for historical studies in our own discipline. For example, accounting historians may wish to explore whether economic growth, regulation of trade and industry, money and inflation, employment and economic fluctuations over the centuries have impacted upon accounting thought and practice.

Barber B. Conable, Jr., *Congress and the Income Tax* (Norman, Oklahoma: University of Oklahoma Press, 1989, 132 pp., \$17.95).

Reviewed by
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Wayne State University

As depicted in the preface, *Congress and the Income Tax* is based upon Barber Conable's 1985 Julian J. Rothbaum lectures at the University of Oklahoma which describe his twenty-year tenure in the House of Representatives. Conable's knowledge and observations from his distinguished career on the House Committee on Ways and Means form the basis for the six chapters. Following his organization, this review will first

consider each of the six lectures separately before appraising the book as a whole.

The first chapter, "A Former Congressman's Backward Look", provides the reader with an introduction to Conable's perceptions of membership on the House Committee on Ways and Means and the public's feeling for federal income taxation. Describing himself as a member of the Republican minority who had a "relatively 'safe' seat" which allowed him to "make tough decisions and survive" [p. 6], Conable sums up the taxpayer's definition of tax reform as "I am paying too much tax because somebody else isn't paying enough" [p. 11].

"The Committee on Ways and Means" provides the reader with the history of the Committee and its interaction with the Senate Finance and Joint Tax Committees in the second lecture. Emphasizing Ways and Means under Wilbur Mills, Al Ullman, and Dan Rostenkowski, Conable's provocative discussion illustrates how the personalities and politics of the three chairmen and the remaining members shaped the Committee and tax legislative history.

Beginning with an historical perspective, "The Federal Income Tax: One Man's Perspective" traces the income tax from the Civil War through World War II. The characteristics of typical tax bills [p. 42] then precede Conable's enlightening discussion of the major tax legislation enacted from 1964-84 when he served on Ways and Means. Here questions such as who was a part of each negotiation? why did a proposal or "reform" become law? and how did each portion of the tax legislation progress to the President's desk?, are expertly answered. Particular attention is devoted to the code sections resulting from bills which Conable sponsored, including "above the line" charitable contributions, ACRS, and indexing marginal rates.

Conable uses his intricate knowledge of the interrelationships within the Congress to explore the Tax Reform Act of 1986 in "The 1986 Act, An Appraisal". Although he was not present, his knowledge of the personalities and politics offers an astute overview of the evolution of this major income tax revision.

Wordsworth's "getting and spending, we lay waste our powers" [p. 93] provided the basis for the fifth lecture. Conable first enumerates the attempts to decrease spending such as zero-based budgeting, sunset laws, and Gramm-Rudman-Hollings. However, most of this lecture is devoted to "getting", and the problem of how to broaden the tax base and increase revenues by removing "preferences" while supporting simplification and "lowering" the tax burden.

Conable's expression of the responsibilities of members of Congress forms the basis of his last lecture, "Taxation with Representation: A Current Appraisal". He believes that Congressmen should be generalists not specialists. While generalized judgment creates a dichotomy between compromise and complexity, he asserts that random and other influences take a back seat to a Congressman's perceived consensus among the people [p. 125].

The lectures in *Congress and the Income Tax* flowed together to form a very interesting and informative work. The only criticism is the lack of summarization at the end of each lecture and at the conclusion of the book. As separate lectures, the second and third should become required reading for graduate-level tax policy, procedure, and/or research courses. Those who are curious about the historical basis of the federal income tax, and the personalities and politics surrounding the current tax law will enjoy the third and fourth lectures immensely.

In summary, Barber Conable provides readers with an insider's appraisal of past and current tax legislation, the personalities shaping the major acts and the political compromises creating the complexity. The enjoyable style of the lectures will treat all taxpayers to a concise explanation of the formation of tax policy.

Edgar Jones (editor), *The Memoirs of Edwin Waterhouse: A Founder of Price Waterhouse* (London: B. T. Batsford Ltd., 1988, 248 pp., \$34.95).

by
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Heriot Watt University

In 1985, the manuscript memoirs of Edwin Waterhouse (one of the founders of Price Waterhouse) were discovered and Edgar Jones, whose earlier work on *Accountancy and the British Economy, 1840-1980*, [1981], was received with much acclaim, was asked to edit the eleven large volumes. The memoirs were written when Edwin was in his 60's, but for the period up to 1869 they are based on detailed diaries which he maintained. Together with an appendix, the writing continues up to the year of his death (1917). This book is an edited version of the memoirs together with a useful introductory chapter and extensive notes and references by Edgar Jones.

Edwin Waterhouse (1843-1917) was the youngest of seven children in a Quaker family, whose Quakerism went back for several generations. His father, Alfred Waterhouse, was a prosperous Liverpool cotton broker, but the family moved from Liverpool to Bristol (and later to Reading) during Edwin's boyhood. At the age of 15, he became a pupil at University College School, London. Subsequently, he was a student at University College, and he graduated from that college in 1860. In the year following his graduation (at the age of 20), he entered the office of Coleman, Turquand, Youngs and Co., an important city firm of accountants, as a trainee. He stayed with this firm for three years.

The section of the memoirs dealing with his accountancy training is not particularly informative, but he does say that "on the whole" his time with the firm was interesting and that he obtained a "considerable variety of experience". Although there were no professional accountancy examinations at that time (prior to the founding of the English Institute of Chartered Accountants), Edwin did take, and pass, examinations of the Institute of Actuaries.

In 1864, Edwin put up a brass plate and began to practice on his own account. One interesting job that he specifically mentions as arising during his first year in practice, is work on a costing system for John Fowler, a Quaker manufacturer and inventor of the steam plow. It seems that much of his early professional work came either from his family or from his Quaker contacts and Quaker names crop up throughout his memoirs.

In 1865, Edwin entered into partnership with Samuel Price, who had almost 20 years experience in accountancy, and William Holyland, with whom he had worked at Coleman, Turquand, Youngs and Co. Waterhouse became the junior partner in the new firm of Price, Holyland and Waterhouse. When Holyland retired in 1874, the firm's name was changed to the more familiar Price, Waterhouse and Co.

Coleman, Turquand, Youngs and Co. had specialized in company liquidation work. Waterhouse was also involved with a number of important insolvencies during his long professional life, and he lectured on the topic. In the second half of the 19th century, auditing work was increasing in importance and Price, Waterhouse and Co. also developed in this area. Edwin was particularly active in the audit of railway companies and banks. He was also the auditor of Oxford University and the Dean and Chapter of Westminster Abbey. There was, however, a great

variety of other work including financial investigations and arbitration. Edwin's descriptions of some of this work, and some of the frauds that he encountered, are particularly interesting for the accounting historian. In 1870, he was involved in devising a profit sharing scheme which attempted to avoid conflict between labor and capital. He undertook several industrial arbitration assignments and volunteered his services in one case. He was also involved in the important Neuchatel Asphalt Company case which clarified the law on the writing off of wasting assets.

In his earlier book, Edgar Jones has noted the connection of the early accountancy profession with non-conformist sects. Edwin Waterhouse's career is an example of this phenomenon. In their early adulthood, however, Edwin and his brothers and sisters (perhaps as a revolt against the perceived strictness of their Quaker sect) joined the Church of England, although Edwin did this without renouncing his membership of the Society of Friends. Much later during his presidency of the English Institute of Chartered Accountants (when his "nominal membership" was queried by the Society), he made it clear that he still considered himself to be a Quaker. His local "Monthly Meeting" of the Society accepted this position.

Edwin Waterhouse's manuscript is (to date) the only complete autobiography of a founder of one of the major international accountancy firms. Its importance is enhanced because its author was also a leader of the profession in the early years of the Institute of Chartered Accountants in England and Wales. He was a member of that Institute on its formation in 1880. In 1887, he was elected to the council, and he held the position of president from 1892 until 1894.

The memoirs are not restricted to accounting matters since they contain much fascinating detail of the day to day life and concerns of a remarkable Victorian family. The chronicle of Edwin's ascent to the top of his chosen profession is interwoven with the success stories of two of his brothers, Theodore and Alfred, who also established themselves in their chosen professions. Theodore, a lawyer, became a respected member of the Council of the Law Society, and Alfred rose to the Presidency of the Royal Institute of British Architects. The book will thus be of interest not only to accounting historians, but also to social historians. This reviewer concurs with the editor's note that "It is in some respects a real Forsyte Saga, a narrative of the rise and achievements of a successful upper-middle-class family, revealing their motives, abilities, prejudices and preoccupations."

Marvin Kitman, *George Washington's Expense Account* (New York: Simon and Schuster, 1970. Reprint edition, New York: Harper & Row, Publishers, 1988, 283 pp., \$8.95).

by

James H. Potts

University of Central Florida

"In some ways General Washington's expense account is the forerunner of the welfare state of the rich" [p. 30]. This quote from Marvin Kitman's entertaining and irreverent "account" of George Washington's financial arrangements for his services as Commander in Chief of the Continental Army aptly demonstrates that General Washington's expense account writing is second to none. The statement takes on added significance in view of recent attempts to denigrate Washington's accomplishments in war and peace.

Kitman, like many American schoolboys, had heard the story concerning Washington's willingness to serve his country without salary during the Revolutionary War. Somewhat reminiscent of a United States national leader almost two centuries later, General Washington explained in a stirring speech after his election as Chief of the Continental Army in June 1775, that all he asked of his new country was that it pick up his expenses. Nothing much is heard in the classrooms about the equally stirring expense account General Washington submitted after the war.

Many modern expense account writers believe that each expense account submitted should be higher than the last. This "escalation principle" was followed unerringly by Washington during the 96 months he was on the expense account. Kitman's exhaustive examination and evaluation of Washington's submissions demonstrate some rules of the General's model: omit nothing; be specific on the smaller expenditures and vague on the larger ones; whenever possible, intermingle personal and business expenses; pick up the check for one's associates; and above all, be reasonable — know what the market will bear. While there is no claim that Washington invented the expense account, Kitman maintains that the items in the ledger book suggest that the General may have been the founding father of "expense account living."

But there is more, much more, to this expense account than mere financial citations of payments to whom and for what. This account, to quote Kitman, "...is filled with tales of violence, sex, and camaraderie; of betrayal and espionage; of

night patrols and hot pursuits; of men living on the edge of death or capture by the hated tyrant" [p. 23]. Further, the account evokes the aroma of special dinners and the rustle of clean sheets as well as the rattle of sabres, the roar of muskets, and the smell of damp defective gunpowder.

For the eight-year duration of the war against the British, General Washington turned in an expense account slightly in excess of \$449,000. However, all of Washington's bill wasn't for out-of-pocket expenses. Included was implicit interest of 6 percent per annum for the money he laid out from his private purse to cover his expenses for the first two years of the war. Also, a surcharge for depreciation was thrown in, which was caused by some degree, by the loss of confidence in his military leadership.

The sum of \$449,000 may at first appear exorbitant when compared to the \$48,000 General Washington would have been paid had he been compensated for eight years of service like other patriot generals. However, to begin to remotely appreciate the significance of the remuneration, one must compare the expense account to what it is worth in today's buying power. Those Continental dollars that Washington was requesting were much harder currency than we have today. Continental money had a nice ring to it. Whether we use the conservative scale of appreciation — say 10 times the 1969 dollar (or 35 times the 1989 dollar) — or the Galbraithian scale of 50 times, we are talking about millions, according to Kitman.

Clearly, Washington was a hero and Kitman doesn't diminish that contention merely because of the General's highly creative expense account; it merely proves his humanity. As it has been pointed out for two centuries, George Washington was willing to make every sacrifice for liberty except one: reducing his standard of living. But even here, says Kitman, he may have sincerely been unaware of the incongruity of his actions. Writing in 1776, Washington indicated "No person wishes more to save money to the public than I do and no person has aimed more at it" [p. 282].

In the final analysis, Washington may have been just another congressman at heart — wanting economy for the nation, with a little prosperity for his own interests. Nonetheless, his account was promptly settled at the conclusion of the war, while lower ranking men waited for years. However, when he offered to serve for expenses only after his election as first President, Congress promptly turned George Washington down flat. He was begged to accept a salary of \$25,000 when the salary

of the Secretary of State (a gentleman by the name of Thomas Jefferson) was fixed at \$3,500.

Read this delightful account by Marvin Kitman and judge for yourself.

Charles Kohler, *Five Years Hard! Memoirs of an Articled Clerk 1928-1933* (Institute of Chartered Accountants in England and Wales, 1987, 44 pp.).

by

John Freear

University of New Hampshire

"You are to be a chartered accountant, dear. . . . You are a very fortunate boy" [p. 7]. With these words from his mother, Charles Kohler began the first chapter of this chronicle of his time as a London chartered accountant's articled clerk between 1928 and 1933. I read the book without putting it down, not just because it is short, some forty-four pages, but because it is so refreshingly well written. I began my three-year articles of clerkship in Manchester, England, some thirty-five years after Kohler qualified as a chartered accountant. I was intrigued to find that we had experiences in common.

At that time, Kohler did not appreciate his mother's view of his good fortune. Indeed, he suggested strong links between punishment and chartered accountancy training through the title of the book, "Five Years Hard!," and through some of his chapter titles, notably "On Probation" and "The Gates Open." The reasons for the analogy with punishment are not hard to find.

First, the young Charles Kohler wanted to be a teacher — but "Uncle Billy says chartered accountants earn much more than school teachers and the work's a lot more interesting" [p. 7]. Thus, in 1928, at the age of seventeen, Kohler became an articled clerk in Uncle Billy's office, knowing little or nothing of what he would be doing for the next five years. He did know that the substantial premium commonly required of articled clerks would be waived, and that he would receive no salary for the five years of articles. Second, early in Chapter Two ("Tedious Years"), Kohler stated, "My years from seventeen to nineteen were lonely, wasted years" [p. 17], leavened it seems by attending, in office time, lectures on bookkeeping and law held at the Institute of Chartered Accountants. He acknowledged that his

loneliness was largely the result of his leaving the community of a Quaker boarding school and his friends to become a commuter from an anonymous London suburb.

After about eighteen months of “calling over” and “casting,” Kohler’s spirits lifted as he acquired a new focus to his professional life — the Institute’s Intermediate Examination and a structured correspondence study program with H. Foulks Lynch & Co. He found the correspondence tuition “thorough but narrow: practical rather than theoretical” [p. 18], and derived more satisfaction from the evening lectures. These were conducted by people such as H.A.R.J. Wilson and W. W. Biggs, names familiar to succeeding generations (mine included) of articulated clerks, as authors of required texts in the Foulks Lynch correspondence study program. Kohler passed the Intermediate Examination, and the reader detects the first glimmer of hope — “I had now served half of my sentence. There was no remission of good conduct, but I knew that the future would provide more interesting and responsible work” [p. 21].

The more interesting and responsible work turned out to be bank reconciliations, sales ledger balance extraction, final account work, including being present at discussions with clients, and travel to clients in different parts of the country. His journeys to South Wales and the Midlands, where he “encountered a different culture from that of the soft south” [p. 25], advanced his education. His brief descriptions of coal miners and of mine officials, and their way of life, like the descriptions of his colleagues and of London life throughout the book, are vivid and expressive. He also advanced his education by browsing through the Institute library, and attempted the pages of that “rather prosaic journal” [p. 30], *The Accountant*, in order to gauge his financial prospects on qualifying. These ranged from five or six pounds per week at a Far Eastern rubber plantation to about three pounds in public practice. Life was certainly becoming more exciting. He described games of office cricket, the misuse of the office adding machine for gambling purposes, and meals at the Lyons tea houses that identified him as a man with a strong constitution. Curried vegetable hotpot, a glass of milk and a portion of jam roly-poly pudding comprised his typical luncheon fare.

Kohler wrote the seven papers of the Institute Final Examination in November 1933. In the following January, he learned — after initially reading the wrong list and being dejected to find his name not there — that he was one of the fortunate forty-three percent who had passed. At this point, and for the

first time, he was to receive a salary, three pounds ten shillings per week.

In the final chapter, Kohler stated that although he did not choose to be a chartered accountant, he "harboured no regrets" [p. 42]. He regarded the first half of his article service as "largely wasted in ticking, vouching and the calling over of figures" [p. 40]. This he ascribed to the years of industrial depression, unemployment and the dole, which reduced the amount of available responsible work, and turned the articulated clerks into a pool of free unskilled labor. I am bound to say that my own experience suggests that this was an over-generous assessment. At least half of my three years of articles was similarly wasted, and this in a period of relative prosperity some thirty-five years later.

E. Kenneth Wright, a past president of the Institute, and a long-time colleague of Kohler, stated in his introduction to the book: "Charles has produced a period piece which will be read with great enjoyment by his contemporaries. The present generation may possibly pursue it with a condescending smile" [p. 5]. As someone in between those two generations, I read the book with great enjoyment, with perhaps a little — but not much — nostalgia, without condescension, but with a recognition that the profession has improved its practices and its training over the years. Yet some things remain the same. Through our training we did acquire, in Kohler's words, "the essential disciplines of the profession: the capacity to concentrate; to be accurate and to be objective" [p. 40]. Further, we began to understand "the responsibility of the practising accountant: a responsibility . . . that would test integrity" [p. 40]. Anyone reading this book — from my generation — will be the wiser for its account of, and commentary on, one period in the evolution of the accounting profession in England.

Charles Kohler really wanted to be a teacher. To judge from this book, his colleagues, his clients, his clerks and his readers will have found him to be a remarkably successful one.

George J. Murphy, *The Evolution of Selected Annual Corporate Financial Reporting Practices in Canada 1900-1970* (New York: Garland Publishing, Inc., 1988, 240 pp., \$35).

by

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This book originally appeared without substantive change in 1970 as the author's doctoral dissertation. Its purpose is to document chronologically the changes in selected corporate annual financial reporting practices in Canada from 1900 to 1970, together with their underlying influences.

The work, which is structured into seven chapters, commences with the evolution of the mandatory audit and its scope. Attention is then given to how the balance sheet and profit and loss statements evolved, including their content, classification, and general valuation base. The earned surplus statement, footnotes to financial statements, secret reserves and extraordinary items are then examined. A separate chapter is devoted to corporate depreciation practices. The book includes a comprehensive 270 item bibliography and five supporting appendices, but no index.

The study's perspective is broad-based. It focuses on general changes and influences, and especially on the reporting practices of industrial companies that fall within federal, and not provincial, companies' act legislation. To document these changes, the annual reports from a random selection of ten companies are examined for each of the periods: 1903 to 1919, 1920 to 1939, and 1940 to 1970. In addition, test readings of corporate reporting practices of 30-40 companies are made approximately every ten years throughout the period. These samples, together with the descriptions and studies of similar evidence by academic and professional commentators of the time, comprise the fabric upon which themes are developed.

The initial influence of English company legislation, followed by the growing influence of pronouncements from the American Institute of Certified Public Accountants, especially during the formative 1930 to 1950 period are reviewed. These influences are carefully traced to both Canadian company legislation and to pronouncements of the Canadian Institute of Chartered Accountants about the scope of financial statement audit and the form and content of the audit report. The implicit thesis of this longish second chapter is that improvements to annual reporting practices since 1900 have been a reaction to

the mandatory audit and its scope rather than to voluntary disclosures. One surprise was to learn that it was not until 1964-65 that Canadian federal legislation required the auditor to give an opinion on the profit and loss statement.

The book then details an intricate chronological mapping of the several influences that underlie the evolution of financial statements' form and content. This is dealt with in three periods: 1900 to 1920, 1920 to 1940, and 1940 to 1970, and is based on a review of corporate legislation, financial press commentary, the professional and academic literature, and a sample of corporate annual financial statements.

The 1900 to 1920 period appears to reflect a philosophical tug-of-war between maintaining secretiveness in corporate reporting practices (motivated partly by fear of helping a competitor) and an increase in voluntary disclosures, the latter emerging victor. In the second period, there was increased emphasis on operating profit as a commentary on valuation. This, together with advocacy of disclosures which would prevent recurrences of the Royal Mail Steam Packet case, acted as the catalyst for the federal Companies Act of 1934 (and its 1935 Amendment). This legislation introduced several new mandatory profit and loss disclosures, especially about each asset category's valuation base. An underlying motivation of this Act was to give additional protection to the public against corporate stock promotion and capitalization abuses.

In the third period, the Ontario Corporations Act of 1953 constituted a significant revision of financial statement disclosures, these being based almost entirely upon recommendations of the Canadian Institute of Chartered Accountants. This provincial legislation became the precursor for federal Companies legislation eleven years later, and was also extended to the rights of shareholders, the duties of directors, takeover bids, and insider trading. The author notes that almost all of the legislation relating to financial statement disclosure is a direct copy of recommendations of the Canadian Institute of Chartered Accountants, which in turn has benefitted from the American Institute of Certified Public Accountants' having supplied the prototype for many of these recommendations.

The book also has a chapter on the evolution of the depreciation concept in Canada. Between 1932 and 1954, the depreciation methods of Canadian companies tended to follow conventions adopted by the tax department. Subsequent to 1954, no correspondence between depreciation for book and tax purposes was required, and the accounting concept of depreciation was

replaced by the new concept of "capital cost allowances." This development was as much a function of general fiscal policy as it was of the need to amortize corporate fixed assets against corporate revenue. This has given rise to the tax allocation problem, and it is unfortunate that the book does not detail the outcome of deferred tax since 1970. An additional chapter on inventory valuation would have rounded out attention to specific financial reporting practices.

While the greater part of this book is enlightening, its impact is diminished because it is incomplete. Being the only published Canadian study of its kind, the author had a responsibility to use his knowledge of source documentation and his analytical skills to update the text to include the changes that have taken place since 1970. The influence of environmentalists and other vested interest groups on social responsibility reporting, the growing demand for disclosures of an expectational nature, the influence of more recent corporate and bank collapses, several stock scams involving disclosure practices and auditor responsibilities, the Institute's excursion into current cost accounting, and the political influences that underlie the standard setting process have all been influential in explaining how we have arrived at present reporting practices. At least some of this information might have been obtained from personal interviews with relevant individuals. Such inclusions would have significantly updated, enlivened and enriched this scholarly book. Although we are interested in history, our anchor-point is, more realistically, the present, and not 1970.

Terry K. Sheldahl, Editor, *Education for the Mercantile Counting House: Critical and Constructive Essays by Nine British Writers, 1716-1794* (New York: Garland Publishing, Inc., 1989, 440 pp., \$60.00).

by

G. A. Swanson

Tennessee Tech University

This volume contains two parts — the first chapter and the rest of the book. The first chapter is a 115-page treatise on the evolution of English general education from 597 to the mid-eighteenth century. The remaining chapters concern nine eighteenth-century essays. Although the essays are not likely to change our perceptions about the development of accounting

education in that century, they may provide insights into how liberally general educators perceived bookkeeping as a subject.

The title of the book is misleading. The connection between the education discussed and the mercantile counting houses is never made in either the treatise or the essays. It is like titling a book on modern business education "Education for the Banking Industry" because banks in some sense underlie modern business. Readers looking for information on mercantile counting houses will be disappointed in the book's contents.

Notwithstanding its title, the book is a useful addition to the study of both business and accounting education. Some educators assert that the present emphasis on liberal education for business is a modern phenomenon, but the nine essays refute this assertion. For example, Thomas Watts' essay "On the Proper Method for Forming the Man of Business," published in 1716, advocates the combination of accounting and liberal education advocated by many business actors today [pp. 123-138]. Watts suggests the following five areas of learning, in order of importance: (1) correspondence, (2) computation, (3) bookkeeping, (4) mathematics, and (5) "Propriety of Expression." He describes a package of knowledge and skills from communications and computing to analytic and interpersonal skills that includes accounting.

The author-editor's own treatise in the first chapter is tedious if a reader is searching for accounting education milestones. It is quite revealing, however, of the apparent general education value English educators placed on bookkeeping. Long before it was associated with trade schools, bookkeeping was part of the emerging general education.

The nine essays are mostly photographic representations of original imprints. Well over 100 other works are cited by the author.

The volume should interest all accounting and business historians, particularly those interested in education. It should be considered for assigned reading in courses in the history of education generally and in the history of business and accounting education specifically.

Atsuo Tsuji, *The Historical Development of Management Accounting* (Tokyo: Yuhikaku, 1971. Revised and enlarged edition, 1988, 308 pp., Y4800E).

Reviewed by
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The first edition of this book gained a reputation in Japan of having successfully established a social science methodology for researching the history of management accounting and of having analyzed the formative stages of U.S. management accounting from 1880 through 1920. The revised and enlarged edition, now available to readers eager for a reprint, has elaborated both the methodology and content through subsequent research.

The author's methodology can be identified with one of the critical schools of accounting in Japan whose origins go back to the early 1950s (or, according to some researchers, to the 1930s). While traditional accounting theorists tended to confine their research to mere discussion of accounting techniques and interpretations of law, the development of accounting as a social science discipline was heavily influenced by the critical theories. The latter theories share common characteristics in that they are based on a political economy of capitalism or monopoly capitalism and view accounting in a social and historical context. Through applying these perspectives to his study, the author has proposed a productive methodology oriented both to the analysis of logical relationships between accounting theories or techniques and the development of capitalist economy and to the analysis of individual historical facts.

Through this effective methodology, this book arguably makes the following contributions to the research of management accounting history.

First, it identifies the managerial or control function of costing *per se* at the stage of the modern factory system as a basis of management accounting. Traditional research approaches were concerned with the history of linkage between costing and the accounting (bookkeeping) system. On the contrary, this book demonstrates that costing was developed, especially in the USA, regardless of articulation with the accounting system.

Second, this book successfully discerns two types of costing development, the UK-type and the US-type. While accountants took the lead in developing a system devoted to precise calcula-

tion of cost in the UK-model, it was the engineers with experience in the scientific management movement who initiated efforts to design new methods of reducing cost in the US-model. As a result, the US-type invigorated the formation of management accounting.

Third, Tsuji's book elucidates the history of two indispensable components of management accounting: standard costing and budgetary control, while other researchers tend to lean toward one or the other. This book emphasizes that the scientific management movement stimulated the formation of standard costing and budgetary control and that the first stage of management accounting was promoted by engineers who were not acquainted with the traditional accounting system. The book goes on to argue that management accounting, initially formulated as an accounting of engineers, was finally completed and institutionalized by combining the accounting of engineers and the accounting of accountants.

The uniqueness of the book lies in its theoretical categorization of the types and stages of development of management accounting and its emphasis on what the author terms "the logical inevitability imminent in historical facts." These characteristics are deeply related to the author's methodology.

This theory-oriented study contrasts with the empirical (facts-oriented) works of such authors as A. D. Chandler, Jr. and H. T. Johnson. One of Tsuji's apparent objectives is to criticize these empirical case studies as lacking theoretical analysis. It is difficult to determine which criterion ought to be used to denote the development of management accounting. Can it be any practice in a particular company, a theory which popularizes a typical method or any set of practices and theories? This book is stimulating in that it raises these significant, controversial issues.

Unfortunately for our non-Japanese readers, this book is written in Japanese. It is to be hoped, however, that through international exchange and cooperation the book can come to be regarded as a contribution to be reckoned with in our future debates extending beyond the language barrier.

William J. Vatter, *Managerial Accounting* (New York: Prentice Hall, 1950. Reprint edition, New York: Garland Publishing, 1986, 510 pp., \$80.00).

Reviewed by
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Recently educated accounting academicians may not be familiar with William Vatter or his 1950 textbook, *Managerial Accounting*, now published in reprint form by Garland. Professor Vatter received the 1984 AAA Outstanding Educator Award and served on the faculties of the University of Chicago (1936-57) and California-Berkeley (1957-72). He is perhaps best known for the "fund theory" of accounting and the concept of "service potential" as the key attribute of assets.

Professor Vatter produced eleven books, monographs, or handbook contributions and over fifty articles. He developed *Managerial Accounting* for his University of Chicago managerial accounting course and it was reprinted 18 times by Prentice-Hall until 1962. Charles Horngren, one of Vatter's students and colleagues at Chicago, has dedicated every edition of *Cost Accounting* to Professor Vatter.

Managerial Accounting differs in many ways from today's accounting textbooks. The book contains 36 chapters that are divided among five topic areas: Accounting Concepts, Budgeting and Managerial Control, Elements of Accounting System, Accounting for Unit Product Cost, and Problems of Cost Interpretation. Vatter unites these disparate topics through his consistent interpretation of accounting. For Vatter, "the fundamental and most important uses of accounting are bound up with the operations of management" [p. 2], and accounting is "a means of getting at the facts with which management is concerned" [p. 15]. Throughout the text, accounting procedures are explained and assessed in relation to their usefulness to management.

Vatter focuses much more on the conceptual rather than the factual-recall level of learning. Each chapter contains one or two detailed, challenging problems, rather than the innumerable review questions, exercises, problems, etc., that appear in many modern texts. Accounting procedures are often described narratively rather than in debit/credit form, and these procedures are carefully reported and thoughtfully reasoned. As a result, the book has a distinct and personal flavor to it.

Perhaps it goes without saying, that *Managerial Accounting* is clearly not suitable for use in today's managerial ac-

counting courses. Too much of its procedural content is outdated and none of the most current managerial accounting issues (e.g., JIT, quality costs, activity accounting) are explicitly addressed. If the book is read as accounting literature, however, it is far more satisfying. Chapter 1, "Introduction", and Chapter 20, "The Problem of Cost-Finding" are finely written and especially stand out. For example, Vatter writes:

"The cost unit may be a function, a process, an activity, a method of doing something, or one of the available alternatives in a problem of choice or decision; . . . or it may represent a hope, a plan, an event, or any other item or conception about which question of cost significance may arise" [p. 330].

Professor Vatter provides a unique perspective on accounting terms, concepts, and procedures. His style is lucid and personal, but never opinionated. The book does require selective reading and should be of interest to those that appreciate a literary approach to basic accounting concepts and principles.